

Message Text

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STR-04 AID-05 CEA-01 CIAE-00 COME-00 EB-07 EA-06

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TO SECSTATE WASH DC IMMEDIATE 6702

C O N F I D E N T I A L SECTION 01 OF 02 OECD PARIS 10258

FOR FSE (BOSWORTH)

E.O. 11652: GDS

TAGS: ENRG, OECD

SUBJECT: IEA: BACKGROUND DOCUMENTS FOR APRIL 28-30
SLT MEETING

BEGIN TEXT

ASPECTS OF CIF OR FOB BASIS FOR A COMMON MINIMUM
PROTECTED PRICE

IN ACCORDANCE WITH THE GOVERNING BOARD'S DECISION AT ITS
FIFTH MEETING, PARTICIPATING COUNTRIES WILL IMPLEMENT
MEASURES WHICH PREVENT IMPORTED OIL FROM BEING "SOLD
WITHIN THEIR ECONOMIES BELOW A CERTAIN AGREED PRICE
LEVEL." (IEA/GB(75)17 ANNEX I)

THE WORDING OF THE DECISION LEAVES NO DOUBT THAT THE
AGREED PRICE LEVEL SHALL BE A LEVEL APPLIED TO THE HOME
MARKET PRICES OF EACH MEMBER COUNTRY. NEVERTHELESS,
THERE MIGHT BE DIFFERENT APPROACHES TO DEFINE THE BASIS
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OF SUCH AN AGREED PRICE LEVEL.

A. THE AGREED PRICE LEVEL COULD BE A COMMON MINIMUM CIF-PRICE LEVEL, WHICH INCLUDES BY DEFINITION ALL COSTS WHICH ARISE FROM BRINGING OIL FROM THE WELL TO THE DOMESTIC MARKET.

B. AN ALTERNATIVE DEFINITION MIGHT BE TO ESTABLISH THE AGREED PRICE LEVEL AS THE SUM OF A COMMON MINIMUM FOB PRICE PLUS THE INDIVIDUAL AVERAGE TRANSPORTATION AND INSURANCE COST WHICH AROSE FOR EACH MEMBER COUNTRY IN THE PAST FROM BRINGING IMPORTED OIL FROM THE WELL TO ITS DOMESTIC MARKET.

THE TWO ALTERNATIVES HAVE A NUMBER OF DIFFERENT IMPLICATIONS:

I. EFFECTS ON DOMESTIC PRICE LEVEL FOR IMPORTED OIL WITHIN THE IEA AREA.

A. CIF: THE PRESENT PRICE DIFFERENCES FOR IMPORTED OIL IN THE DOMESTIC MARKETS OF IEA MEMBER COUNTRIES, WHICH ARE PRIMARILY DUE TO DIFFERENT TRANSPORTATION AND INSURANCE COSTS, WOULD BE ELIMINATED.

THIS THEN WOULD CHANGE THE EXISTING RELATIONS BETWEEN THE FUEL PRICE LEVELS IN THE DIFFERENT IEA COUNTRIES. SOME COUNTRIES WOULD LOSE THEIR RELATIVE HIGH PRICE LEVEL. THIS MIGHT HAVE SOME IMPLICATIONS FOR INTERNATIONAL TRADE.

FOB: THE PRESENT DIFFERENCES BETWEEN THE OIL PRICE LEVELS IN THE DIFFERENT IEA COUNTRIES WOULD BE UNAFFECTED.

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II. NOMINAL LEVEL OF THE COMMON MINIMUM PROTECTED PRICE.

A PROTECTED CIF PRICE HAS TO BE SUBSTANTIALLY HIGHER (DOLS L-2/BBL) THAN AN FOB PRICE TO GRANT THE INVESTORS THE SAME DEGREE OF PROTECTION.

THE NOMINAL LEVEL OF THE COMMON MINIMUM PROTECTED PRICE MIGHT INFLUENCE:

- THE POLITICAL FEASIBILITY OF THE ESTABLISHMENT OF A COMMON MINIMUM PROTECTED PRICE;
- THE POLITICAL EFFECT OF SUCH A MEASURE ON NON-IEA MEMBERS.

III. COMPETITIVENESS OF IEA-PRODUCED OIL.

A. CIF: OIL PRODUCED IN AN IEA COUNTRY HAS THE MOST ADVANTAGEOUS COMPETITIVE SITUATION WITH REGARD TO CONFIDENTIAL

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NON-IEA OIL IN THE MARKET OF THE PRODUCING COUNTRY ITSELF. OUTSIDE THE DOMESTIC MARKET, ITS POSITION IS WEAKENED. IT REQUIRES ADDITIONAL TRANSPORTATION AND INSURANCE COSTS TO BRING IEA OIL TO FOREIGN MARKETS WHILE OPEC OIL IS AVAILABLE THERE AT THE SAME PRICE AS IN THE DOMESTIC MARKET OF THE OIL-PRODUCING IEA COUNTRY. THIS MIGHT BE A CONSTRAINT ON TRADE OF IEA-PRODUCED OIL AMONG IEA COUNTRIES.

B. FOB: THE OPEC OIL PRICE IS DIFFERENT IN ALL IEA COUNTRIES. THE EFFECT OF THIS MIGHT BE THAT OIL PRODUCED IN AN IEA COUNTRY MIGHT FIND COMPARABLE ADVANTAGEOUS CONDITIONS NOT ONLY IN THE DOMESTIC

MARKET, BUT ALSO IN FOREIGN MARKETS. END TEXT
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